

Indonesia Eases Quotas on Beef From Australia (NY TIMES)
By REUTERS

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SYDNEY — The Australian beef industry will be able to increase sales to Indonesia, one of its biggest markets, after Jakarta relaxed restrictions on some imports to hold down local beef prices and prevent supply shortages under a policy aimed at increasing self-sufficiency.

Indonesia has agreed to exempt "premium" Australian beef imports from quotas, Trade Minister Craig Emerson of Australia said Tuesday. It will also allow live cattle exporters to start filling quotas intended for the final six months of the year ahead of schedule. Australia is among the world's biggest beef exporters and has relied heavily on Indonesian demand, but the tightening of quotas by what was its largest live cattle market in 2012 and 2013 hurt the industry.

Indonesia cut its 2012 import quotas for live cattle more than a third and for beef nearly two-thirds, while 2013 quotas were cut another 30 percent for cattle and 6 percent for beef, as Jakarta sought to promote its domestic beef market. Australian beef cattle prices have recovered slightly in the past week, with the Eastern Young Cattle Indicator, a benchmark, rising 2 cents Monday to 2.96 Australian dollars, or \$2.86, per kilogram, or 2.2 pounds, although prices remain 20 percent lower than a year ago.

"Today's decision means that those farmers that have stock available — there is an opportunity to get them on the boat," said Alison Penfold, chief executive of Australia's Live Export Council. Indonesia's quotas on beef imports are aimed at building up its domestic beef industry, but the policy has created shortages and rising prices.

"These measures are taken to stabilize beef price in the domestic market so that people can afford beef for their daily meal," said Indonesia's trade minister, Gita Wirjawan. Indonesia set total beef import quotas for 2013 at 32,000 tons, of which approximately 20 percent were to consist of prime cuts. The live cattle import quota was set at 267,000 head of cattle. The Australian Bureau of Agricultural and Resource Economics and Sciences forecast that beef and veal exports to Indonesia in the 2012-13 season would be 26,000 tons, a fall of 32 percent from the previous year. Total Australian boxed beef exports were put at 2.19 million tons in 2012-13. The bureau forecast live cattle exports at 450,000 head of cattle during the 2012-13 marketing year. Despite softening its stance, Indonesia said it was committed to protecting domestic beef producers. "There has to be protection to cattle farmers from excessive beef imports so that cattle prices at the farmer level can be kept at a beneficial level," said Agriculture Minister Suswono. As part of the policy, Indonesia said prime slaughtered beef would be permitted to be unloaded at three main airports, in Jakarta, Bali and Medan.

"Any increase in quotas is welcomed, but it is incumbent on both governments to develop trading protocols that send correct signals to producers and customers," said David Farley, managing director of the Australian Agricultural Co., the country's largest beef producer. Last week, the company reported a first-quarter loss of 46.5 million dollars, blaming the live cattle ban and dry conditions across much of the country's east coast. The Australian government suspended live cattle exports to Indonesia in 2011 after the airing of footage showing harsh treatment of animals. The ban was lifted after a month, although the Australian cattle sector says the move damaged the trade.

Quota

Xlat article

International Trade: Quotas on Australian Beef (Article from May 28, 2013)

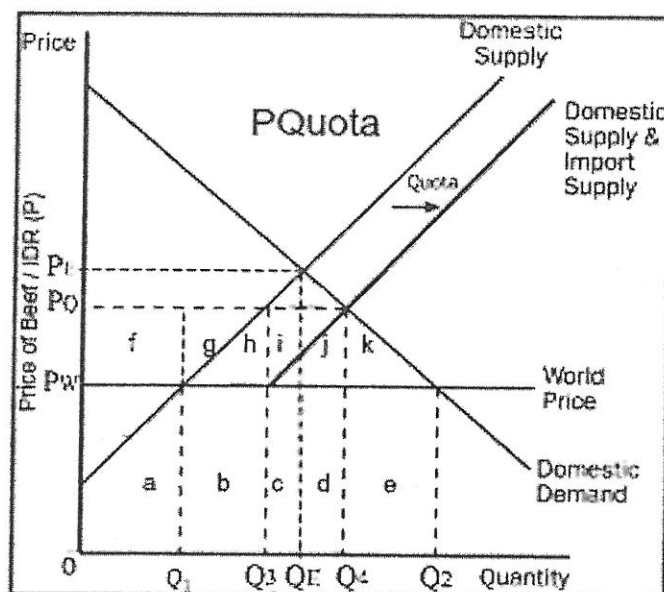
Economics Internal Assessment 2014 (749)

The article discusses Indonesia's exemption of quotas on Australian beef. As a form of *protectionism* (the imposition of legal restrictions by the government to protect the domestic industry from international trade), *quotas* (a restriction on the amount of a good allowed to be imported) had been placed on Australian beef in 2012.

"Australia is among the world's biggest beef exporters that ha[d] relied heavily on Indonesian demand", however Indonesia had imposed quotas in order to 'promote its domestic beef market'. The effects due to quotas can be graphically analyzed, by considering

Figure 1.

Figure 1: Indonesian Quota on Australian Beef



The graph portrays the instance in which Indonesia imposes a quota on Australian beef. In the open market, efficient world producers (such as the Australians) produce beef at the lowest price, P_w . However, only a few Indonesians can supply at this price – limited from $(0-Q_1)$, reflecting a small revenue of box a. The Australians, however produce (Q_1-Q_2) at the world price P_w ,

making revenue of boxes b+c+d+e.

As the Indonesian beef industry makes little revenue compared to the Australian's as seen from the revenue boxes (the Australian's supposedly produce more beef efficiently at lower costs owing to benefits in their factors endowments such as land), a quota can be imposed. Therefore, Australian imports are limited to (Q_1-Q_3) .

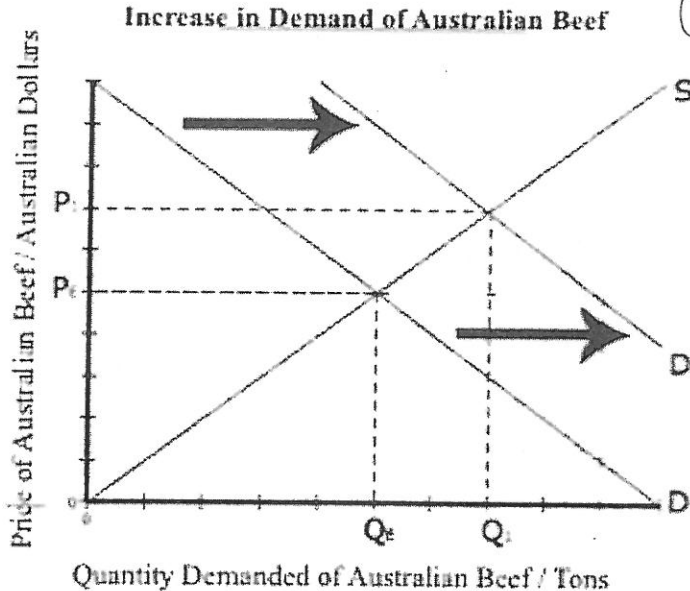
The Australians are not constrained to a certain price maximum – they can raise the price to P_Q , in order to compensate for the loss of revenue due to the decreased sellable quantity. They are thus subject to revenue of b+g+h.

At this higher price P_Q , there occurs a situation of *excess demand*. Thus, "the policy ha[d] created shortages and rising prices". Supply covers $(0-Q_3)$, however demand is at (Q_4) . The Australians cannot fill this gap though, due to the quota. Hence, the domestic industry must step in to provide the quantity from (Q_3-Q_4) and clear the market at a new equilibrium

established at (P_Q-Q_4) . This allows domestic producers to be subject to more revenue, marked by boxes a+f, c+d+i+j.

The exemption of quotas on Australian beef imports has consequently increased the quantity demanded. In effect the price of Australian beef increased '2 cents', depicted in Figure 2.

Figure 2: Increase in Demand of Australian Beef



Due to the increased demand, the price of beef has reportedly recovered to \$2.86/kilogram. Thus, as seen in Figure 2, the demand curve shifts from (D to D₁), reflecting increased demand and prices. The shift occurs as a non-price determinant of demand has been altered, therefore changing the whole relationship of supply and demand in the market. It is evident that the new

equilibrium price P_1 has increased from the previous equilibrium price of P_E , while more quantity is also demanded – shifting from Q_E to Q_1 .

Removing the quota has varying effects. Firstly, the Indonesian trade minister claims the measure should “stabilize beef price in the domestic market so that people can afford beef for their daily meal”. The quota had resulted in domestic consumers having to face ‘rising prices’ for less quantity (shortage) in the long run (as explained in Figure 1). Thus, the removal should be beneficial for them with the lower prices closer to P_W and increased quantity.

The Australians will also benefit from the exemption of the quota. The industry had been ‘hurt’, due to restriction in the export tonnage. However, cuts in 2013 import quotas by 30% for cattle and 6% for beef compared to 2012, will enable a greater quantity to be sold and thus lead to increased revenues in the long run. The price of Australian beef is also reportedly increasing, thus creating more revenue. In the short run however, it may take time for the Indonesian consumers to adjust and realize that they can derive the same or even more utility from Australian beef, as opposed to domestic beef.

However domestic producers, now face the threat of foreign competition, and must be motivated to become more efficient in order to compete with the Australians. The primary aim of the quota was to “build up [the] domestic beef industry”, yet without the quotas it is

quite likely that the industry will face threat. Indonesia is reported to being "committed to protecting domestic beef producers", regardless of the exemption. However, the article does not specifically state in what manner the government will support them. Perhaps beef will be subsidized in the long run. *develop*

other methods

In conclusion, the removal of the quotas allows for generally, more efficient allocation of resources and should benefit the Indonesians and Australians in a positive manner, in both the short and long run.

will it solve original problems

good technique

*definitions, graphs used effectively
good attempt at analysis
2 main concepts*

eval is ok.

misses pt. of intent.

Step back

really look at^a activity

A	B	C	D	E
(2) 3	2	2	3	3

12/A

we are done